



UNITED NATIONS  
DEPARTMENT OF ECONOMIC AND SOCIAL AFFAIRS  
STATISTICS DIVISION

**Expert Group on International Merchandise Trade Statistics**  
**First meeting**  
**New York, 3-6 December 2007**

*Country Presentation*  
**The Czech Republic**

*Item 6: Goods for Processing*

## 6. COVERAGE AND TIME RECORDING

### ii. Goods for processing

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## Introduction 1

Definition:

Processing covers operations (transformation, construction, assembling, enhancement, renovation) with the objective of producing new or really improved item. This does not necessary involve a change in the product classification.



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## Introduction 2

From the point of view of EU Member States it is necessary to distinguish:

- real processing as the customs regime (suspension and draw back system, under customs control) in the relation to the non EU countries (SAD documents)
- processing under contact in the relation to EU countries (Intrastat declaration)



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## Why processing of the goods ?

Reasons for processing in the different state:

- lower labour costs
- special operations to be carried out
- high quality of operation (new technologies)

In the relation to non EU states:

- easier movement of goods without paying custom debt or its returning by back movement

*Geographical conditions:* the best are bordered states, low transport costs



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## Statistical point of view and valuation

Goods sent for processing:

Code nature of transaction 4

The total value of the goods in their unprocessed state must be reported

Goods sent after processing:

Code nature of transaction 5

The total value in their processed state must be reported (value initially reported for the unprocessed goods plus processing costs)



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## Processing in Figures 1

Before accession CZ to EU

- inward processing

share of imports for processing create 25-27% of total imports

share of exports after processing was 30-33% of total exports

Main partner Germany-geographical advantage

- outward processing – not significant, about 2-3% of total exports and 4-5% of total imports (only for special operations)



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## Processing in figures 2

After accession CZ to EU

Figures concerning processing significantly decreased  
(data of the year 2006)

- inward processing
  - share of imports for processing create 7,3% of total imports (share in trade with non EU countries 0,9%)
  - share of exports after processing was 8,7% of total exports (share in trade with non EU countries 1,4%)
- outward processing – even less significant, about 0,54% of total exports and 0,69% of total imports



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## Is it really true ?

The same situation with significant decrease share of processing has arisen in all Member States after EU accession

Reasons - methodological changes:

In the trade with EU Member States

- free circulation of goods within the whole EU customs area - previous processing has changed to purchase/sale
- from VAT point of view is processing treated as service – taxation in the Member State of the client (what is better from the point of view taxation?)



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## Is it really true?

(continuation 1)

- relation between controlling and subsidiaries companies (even goods for/after processing is marked under code nature of transaction 9 – translocation of own property)
- in case the goods after the processing not returning to original Member State, for person, who ordered such processing, rise obligation to be registered in Member State, where processing take place (code nature of transaction 1 – intended transform of ownership)



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## Is it really true?

(continuation 2)

In the trade with non-EU countries:

In cases, when imports of the goods for processing is without obligation to pay the duty, has been administrative simpler to put them into free circulation

No one non EU country bordered with CZ

(higher transport costs)

At the present time no so low labour costs in CZ



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## Conclusions

Methodological problems concerning of record processing operation rise the question:

Does the processing include into trade with the goods or remove such operation into services at the time of progressive globalisation?

One solution already exists:

According Balance of Payment Manual: starting with the year 2008 data concerning processing will be removed from the goods into the services



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## The end

Thank you for your attention



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